



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
MARKET REGULATION

March 3, 2005

Arthur Snyder
President
A.M. Best Company, Inc.
Ambest Road
Oldwick, New Jersey 08858

Re: A.M. Best Company, Inc.

Dear Mr. Snyder:

This responds to your request, on behalf of A.M. Best Company, Inc. ("A.M. Best"), that the Division of Market Regulation ("Division") provide you with written assurance that it will not recommend enforcement action to the Securities and Exchange Commission ("SEC" or "Commission") against broker-dealers that consider credit ratings issued by A.M. Best to be credit ratings from a nationally recognized statistical rating organization ("NRSRO") for purposes of the net capital rule, Rule 15c3-1 under the Securities Exchange Act of 1934 ("Exchange Act") (17 CFR 240.15c3-1).¹

In correspondence and conversations with Division staff since May 2002, you have represented certain facts relating to A.M. Best's business to be as follows:

I. BACKGROUND

A.M. Best is a privately owned and operated rating agency based in Oldwick, New Jersey. For the past 105 years, A.M. Best has published ratings and financial information relating to the global insurance industry. With regard to its ratings business, A.M. Best assigns three types of ratings – financial strength ratings, issuer credit ratings,

¹ To receive an NRSRO no-action letter, a credit rating agency must first request written assurance from the Division that it will not recommend enforcement action against broker-dealers that consider credit ratings by the credit rating agency to be credit ratings from an NRSRO. Before the Division will issue the requested no-action letter, it must first determine that the rating agency satisfies certain established criteria. The single most important criterion is that the credit rating agency is widely accepted in the U.S. as an issuer of credible and reliable credit ratings by the predominant users of securities ratings. The staff also reviews the operational capability and reliability of the credit rating agency, including: (1) the organizational structure of the credit rating agency; (2) the credit rating agency's financial resources (to determine, among other things, whether it is able to operate independently of economic pressures or control from the companies it rates); (3) the size and experience and training of the credit rating agency's staff; (4) the credit rating agency's independence from the companies it rates; (5) the credit rating agency's rating procedures (to determine whether it has systematic procedures designed to produce credible and reliable ratings); and (6) whether the credit rating agency has internal procedures to prevent the misuse of non-public information and whether those procedures are followed.

and securities ratings.² Each type of A.M. Best rating is based on a comprehensive quantitative and qualitative evaluation of, among other things, a company's balance sheet strength, operating performance, and business profile.³ A.M. Best is not registered as an investment adviser under the Investment Advisers Act of 1940, however, it will do so under the exemption set forth in Rule 203A-2(a) of the Investment Advisers Act of 1940, if deemed necessary by the Commission.

In addition to its ratings business, A.M. Best is a widely-used information source for persons in the insurance business. A.M. Best is responsible for publishing more than 50 ratings publications and services used by investors and persons in the insurance business. A.M. Best has developed substantial and comprehensive insurance-related statistical databases in connection with its non-ratings businesses, and its rating analysts have access to and use this information when assessing creditworthiness with respect to issuers and securities.

As of October 29, 2004, A.M. Best had 604 outstanding ratings on securities issued by 129 enterprises. A.M. Best also maintains 255 indicative shelf ratings on potential debt issues. Further, as of October 22, 2004, A.M. Best employed 521 people, including 111 rating analysts.

II. ORGANIZATIONAL STRUCTURE

A.M. Best maintains its headquarters in Oldwick, New Jersey, and, through wholly-owned subsidiaries, maintains offices in London (A.M. Best Europe Limited) and Hong Kong (A.M. Best Asia-Pacific Limited). A.M. Best's firm-wide strategic and business decisions are made by the firm's six member Board of Directors, five of whom are currently employed at the firm and are active in the company's management. Members of the firm's Board of Directors own or represent a majority ownership in the company.

A.M. Best is organized into three major divisions: Rating Services, Information Services, and Operations. Each major division is headed by an Executive Vice President, who also is a member of A.M. Best's Board of Directors. A.M. Best's Rating Services division is headed by the firm's Executive Vice President/Chief Rating Officer. Reporting to the Executive Vice President/Chief Rating Officer are two Group Vice Presidents responsible for overseeing the Property/Casualty and Life/Health departments

² With regard to the types of ratings issued by A.M. Best, a financial strength rating represents an opinion as to an insurer's financial strength and ability to meet ongoing obligations to policyholders, an issuer credit rating represents an opinion as to an issuer's ability to meet its senior financial obligations, and a securities rating represents an opinion as to the issuer's ability to meet its financial obligations to security holders when due.

and a Senior Vice President responsible for overseeing the Capital Markets and International departments.

All A.M. Best rating policies and procedures are established by A.M. Best's Corporate Rating Committee, in coordination with the firm's Executive Committee. Members of A.M. Best's Executive Committee, which is chaired by A.M. Best's Chairman, President, and Chief Executive Officer, include the firm's three Executive Vice Presidents. As is discussed in more detail below, the assignment of initial ratings, any rating changes, and rating confirmations must be approved by an A.M. Best rating committee.

III. RATING PROCESS

A.M. Best securities ratings are forward-looking assessments of an entity's ability to make timely payments of interest and principal. A.M. Best does not perform an audit in connection with any rating and on occasion relies on unaudited financial information. In all cases, A.M. Best uses information from sources that it considers reliable.

With regard to rating categories applied to long-term debt, A.M. Best uses the same categories as are used by three other current NRSROs – the Standard & Poor's division of the McGraw-Hill Companies, Inc., Fitch, Inc., and Dominion Bond Rating Service Limited – except that A.M. Best's securities rating categories are identified by all lower case letters (*i.e.*, aaa, aa, a, bbb, bb, b, ccc, cc, c, d). Standing within a particular category is generally reflected by A.M. Best with a "+" or "-" symbol (*e.g.*, bb+, bb, and bb-). A.M. Best appends its debt ratings with a "u" modifier when they are under review and may be subject to near-term change. This modifier, which is generally assigned due to a recent event or abrupt change in an issuer's financial condition, identifies whether the rating is "under review, positive," "under review, negative," or "under review, developing." A.M. Best also issues rating outlooks indicating the potential future direction of a company's securities rating over an intermediate period, generally defined as the next 12 to 36 months. Outlook indications can be "positive," "negative," or "stable."

Although A.M. Best only began issuing ratings on securities in February of 1999, its rating process is inextricably linked with its approach to financial strength ratings, which it has been issuing for approximately 100 years. In general, the primary driver of an A.M. Best securities rating is A.M. Best's overall view of the creditworthiness of the issuer of the debt. This view, referred to as an A.M. Best "Issuer Credit Rating," is determined by A.M. Best using its financial strength and debt rating methodologies. An A.M. Best Issuer Credit Rating is typically an opinion as to the overall capacity of an issuer to meet its senior financial obligations.

Once an Issuer Credit Rating is determined, A.M. Best will then “notch” the rating based on the appropriate credit risk characteristics of a particular security as compared to other rated obligations of the issuer. A.M. Best represented that the risk of loss on a particular debt of an issuer can vary considerably depending on the particular type of security and the specific terms written into the security’s legal documentation.

An A.M. Best securities rating reflects both quantitative and qualitative analyses. A.M. Best generally groups its analysis of an issuer and its financial obligations into three broad categories of “credit rating factors” – (1) balance sheet strength, (2) operating performance, and (3) business profile. A.M. Best’s quantitative evaluation is generally based on an analysis of each company’s reported financial performance for at least the past five years using over 100 key financial tests and supporting data. A.M. Best receives information for use in its rating process from a number of sources, but the primary sources are annual and quarterly insurance company statutory financial statements filed with state insurance departments and the NAIC, and answers to A.M. Best proprietary questionnaires. Other sources of information used by A.M. Best in its rating analysis include SEC filings, audit reports prepared by certified public accountants, loss reserve reports prepared by loss reserve specialists or actuaries, and confidential documents provided by an issuer’s management.

Once an A.M. Best analyst team – typically comprised of at least a primary analyst and team leader – has completed its financial strength rating analysis with respect to an issuer, and its further analysis with respect to the credit risk characteristics of a particular security or securities, the analyst team will present its findings and rating recommendations to an A.M. Best rating committee. All A.M. Best securities and financial strength ratings, rating changes, and ratings confirmations are assigned and approved by a rating committee following a committee review process.

Once an A.M. Best rating has been assigned and approved by a rating committee, A.M. Best will generally inform the issuer of the rating committee’s decision as soon as possible after a decision has been reached. A.M. Best represented that issuers may refuse to accept a rating or may appeal an assigned rating. In cases where the issuer refuses to accept a change in rating, A.M. Best will withdraw its ratings on all issues outstanding with such company and make public what such ratings would have been via press release. If an issuer chooses to appeal an assigned rating, the issuer must immediately present additional information that could reasonably be expected to influence the rating committee’s decision. Such information is forwarded to the chair of the appropriate rating committee and, if deemed sufficient, the chair will withhold the release of such ratings until the rating committee can be reconvened. Absent sufficient cause, the rating will be released.

A.M. Best securities ratings are updated and released immediately via press release. They are also made publicly available at no cost on www.ambest.com and are available to Bloomberg subscribers.

With regard to surveillance, (i) A.M. Best ratings are subject to a formal review process at least once every 12 months and also following any significant event, (ii) A.M. Best analysts maintain contact with company management throughout the year, and (iii) A.M. Best ratings are continually re-evaluated for changes that might arise during the year, or in conjunction with the firm's ongoing dialogue with company management. A.M. Best analysts typically conduct rating meetings (not inspections or audits) at the issuer's primary place of business on a periodic basis. If an issuer has previously received financial strength ratings from A.M. Best, and has been subject to such periodic rating meetings, A.M. Best does not require that a rating meeting be held at an issuer's premises solely because the issuer is seeking new issuer credit ratings or issue ratings.

IV. INTERNAL PROCEDURES TO PREVENT MISUSE OF INFORMATION

A.M. Best analysts frequently obtain nonpublic information from rated issuers which an investor may find material to his or her investment decision. As a result, A.M. Best enforces a strict code of ethics and an insider trading policy to protect against the misuse of such non-public information.

A.M. Best does not buy, sell, or hold positions in rated entities or their affiliates, and all professionals in A.M. Best's Rating Services division, and their immediate families, are prohibited from any type of securities transactions involving securities issued by A.M. Best-rated entities or their affiliates. New A.M. Best employees are required to read and understand A.M. Best's policies and procedures regarding confidential information, securities transactions, and conflicts of interest, and such employees are thereafter required to acknowledge on a quarterly basis their compliance with such policies and procedures.

A.M. Best employees are required to report holdings of restricted securities at the time they become employed by the firm, and new rating analysts are required to divest holdings of rated issuers and their affiliates. All A.M. Best employees are required to report their personal securities transactions to A.M. Best compliance personnel on a periodic basis, and such reports are matched against rating actions to check for possible conflicts. Employees of A.M. Best are also prohibited from certain business activities that could be interpreted as creating conflicts of interest, or could damage the reputation of the company. For example, A.M. Best rating analysts must recuse themselves from rating deliberations involving a company for whom they previously worked, or where an immediate family member is currently employed.

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A.M. Best also has established controls designed to prevent the circulation of nonpublic information obtained in connection with the firm's ratings business with other divisions and departments at A.M. Best.

V. CONCLUSION

Based on the foregoing, and facts and representations made to the Division in connection with A.M. Best's request, the Division will not recommend enforcement action to the Commission if A.M. Best is considered by broker-dealers to be a "nationally recognized statistical rating organization" for purposes of applying the relevant provisions of Exchange Act Rule 15c3-1. Note, however, that this position is conditioned on A.M. Best not representing in any of its ratings, marketing, or similar literature that the Commission or Commission staff considers A.M. Best to be recognized as an NRSRO.

You should understand that the position expressed herein is a staff position with respect to enforcement only and does not purport to express any legal conclusion on this matter. The Division's position is confined to the facts as you have represented them; any material change therein may warrant a different result and should be brought to the Division's attention.

Sincerely,



Mark M. Attar
Special Counsel